

(Preliminary draft; Tirana donor workshop version, May 2004)

PRSP-related coordination challenges in Europe; the case of Albania

Content and objectives

Albania, by virtue of its location, history and economic development, is a country that combines three characteristics: its move towards *EU integration*; the *transition-economy adjustments* typical of countries in the region; and several *development challenges*. In particular its European dimension makes the Albanian case, with its specific bi-lateral and multilateral partners, an interesting and complex one, since it raises the question of how to align the European “agenda” with Albania’s overarching Poverty Reduction Strategy (“National Strategy for Socio-Economic Development”; NSSED) and longer-term efforts to achieve the Millennium Development Goals.

The focus of this case-description is on three of the central elements that make up the international “partnership” in Albania’s PRSP/NSSSED-setting: 1) government leadership of *coordination* (both coordination amongst government agencies, as well as leadership provided by the government to donors); 2) *alignment* of donor policies, financial support and aid-instruments with the governments’ overall development strategy; and 3) *harmonization* of donor policies and procedures with country systems. The objective, in addition to sketching an overview of recent developments, is to provide some analytical information which may help to identify useful partnership lessons. This case is based on the findings of a survey of relevant documents and a one- week round of interviews with representatives of key agencies in Tirana during early April, 2004.

1. Country background and context

From the end of World War II until 1991 Albania was a very closed country, with very little relations of any kind with other countries (not even countries in the region or the Soviet Bloc). Since the beginning of Albania’s transition from rigid communism in 1991, economic performance has been impressive, though this trend was briefly disrupted with large- scale civil disturbances in 1997 linked to the collapse of fraudulent pyramid schemes. On average, GDP growth, coming from a low base, was near 9% in the early nineties and has (with the 1997 exception of –8%) gradually slowed to around 6% in 2003. This growth rate is predicted to continue for the medium term, though, thus far, growth has been fairly unbalanced, mainly limited to construction and services. Agriculture, the traditional source of growth, accounts for half of GDP; workers’ remittances account for an additional 12% of GDP.

Since the transition, political stability has increased. Local government elections were held in 2000 and 2003, parliamentary elections in 2001 and presidential elections in summer 2002; yet domestic politics remain divisive and contentious. In particular, the January 2002 resignation of the Prime Minister, which arose from divisions within the Socialist Party (and government) and confrontations with the Democratic Party (boycott of Parliament), diverted attention from the reform process. Tensions have since calmed down, and issues have been resolved within the Constitution, although political dissent both within and across parties continues as planned Parliamentary elections approach.

With a GNI per capita of US\$ 1,380 Albania is at present a lower-middle-income country, one of -if not the- poorest in Europe. A quarter of Albanians live in poverty with less than 2\$/day (4% in extreme poverty, unable to meet basic food requirements) and approximately 40% of households do not have access to basic education, water, sanitation and heating. Most of the severe poverty is concentrated in the rural areas, reflecting the low access to basic services and employment. Not only does poverty remain widespread, but income inequality has also increased over the transition period.

International partners play an important role in Albania in terms of foreign assistance. Key bilateral donors are the European Union (the largest with around 40-45 million Euro/year), Italy, Greece, Germany and the US; while the WB, EBRD and EIB are the larger multilateral lenders. Albanian foreign aid is a high \$85 /capita: 6.3% of GDP and around 28% of government expenditure (close to 60% of government investment). One special characteristic of the Albanian donor-community is the low-key presence or near absence of the “Nordic+” donors.

Regional conflicts (in Kosovo '99 and Macedonia '01) have spurred efforts to draw Southeastern Europe closer to the European structures and Albania's constructive role in the region has moved it closer to Europe. Shortly afterwards the EU and Albania embarked on initial talks on Albania's integration into Europe.

2. Evolution of the PRSP-partnership

Albania joined the World Bank in 1991, an interim PRSP was launched in June 2000 and the Albanian version of the PRSP, the National Strategy for Socio-Economic Development (NSSED) was launched in November 2001 (formally endorsed by the IMF-WB in 2002). Albania's development agenda is presented in its National Strategy for Socio-Economic Development and rests on two pillars: improving governance and sustaining high economic growth. It emphasizes education, health care and infrastructure as priority areas for policy intervention and formulates as goals: 1) real GDP growth of 22-25 % in 3 years with a reduction of the number of poor, especially the extremely poor; 2) tangible improvements in infrastructure and related services, while increasing the poor's access to these services; 3) reduced infant and maternal mortality rates and 4) increased elementary and secondary school enrollment rates.

The first (I-)PRSP documents were written by officials of the Ministry of Finance with support from international consultants. The subsequent NSSED document was written by government officials, with input from local consultants funded by DFID. The Carter Center was asked (and funded) by The Netherlands to help the government organize input from civil society into the PRSP-process. Initial consultations in 2001 were limited and were comprised of input from academia, some civil society organizations, some local governments and some private sector representatives. Gradually, with the support of additional donors, including OXFAM, OSCE, SNV and UNDP, these consultations have expanded to include a broader – although still limited and somewhat ad hoc – range of civil society representation and dialogue.

Albania started negotiations with the European Union for a Stabilization and Association Agreement (SAA) in January 2003, with the initial focus mainly on political issues, like justice and home affairs and rule of law. In contrast to the PRSP, the SAA process provides a political as opposed to a development framework, although the SAA process is supported by development projects under the European Commission's CARDS program. The PRSP and SAA are in theory mutually complementary, the one paving the way for the other, and indeed Government

statements tend to acknowledge this. However, there is a gap between rhetoric and action, and there is still some way to go before conscious and meaningful efforts are made within the administration, as well as among key international partners, to ensure that there are real synergies between the PRSP and SAA. In other words, Albania's development efforts could be more efficient and effective were the PRSP and SAA joined together in a coherent and prioritized development framework.

3. Government leadership of donor coordination¹

Government leadership and internal coordination

Directly following the 1991 transition, it was mainly the bilateral donors that provided (emergency) assistance. This assistance was provided as grants and, as of 1994, coordinated with the Department for Economic Development and Foreign Aid Coordination (DEDFAC) of the Ministry of Economy and Finance. A year later, this department was moved to the Council of Ministers. After the 1997 elections, the DEDFAC functions were shifted to a new Ministry of Economic Cooperation and Trade (MoEC&T) to manage grant assistance, while loans and credits were administered by the Ministry of Finance. In parallel, the MoEC&T was responsible for preparing the Public Investment Program (to be financed by donors and the state budget), while the Ministry of Finance was responsible for preparing the annual budgets. When the first (I-)PRSP ('99) and the preparations for the first Medium Term Expenditure Framework (MTEF)'01-'03 ('00) were undertaken by the Ministry of Finance (principal counterpart for the World Bank), the PIP lost its relative importance and was approved by the Council of Ministers as integral part of the MTEF (although the PIP has yet to be formally eliminated from the mandate and institutional structure of the Ministry of Economy, as per joint WB-UNDP recommendations submitted to the government in 2003).

The NSSED process provided an opportunity for coordination of government policies and actors around it, when government appointed the Ministry of Finance as the national coordinator for the (I-)PRSP. However, not until September 2002, when the Government of Albania established by an order of the Prime Minister the lead structures for the implementation and monitoring of the NSSED, could the Department of the NSSED (DoNSSED), an Inter-Ministerial Working group (composed of the deputy ministers of the line ministries, chaired by the Ministry of Finance), a Steering Committee (comprised of all the ministers, chaired by the Prime minister), Technical Working Groups and M&E units within each of the line-ministries start carrying forward the implementation and monitoring of the NSSED and leading donor-coordination around it.

In the meantime two other important developments had taken place. First, a State Minister for European Integration had been appointed ('99), and in '01 he was put in charge of coordinating the negotiations of a Stabilisation and Association Agreement with the EU and of the planning and implementation of the associated CARDS program agreements and coordinating the negotiations of the Stabilization and Association Agreement with the EU. Since then, EU assistance has been coordinated by the Department of EU Integration positioned directly under the Council of Ministers. Recently the State-Minister and the Department have joined to make up the Ministry for European Integration.

¹ Government leadership pertains to its capacity to develop a coherent strategy framework which provides consistent guidance to and is owned by all its ministries and agencies, while at the same time providing donors with convincing and clear priorities. The PRSP aims to offer such a framework. Government leadership in donor-coordination is a pre-requisite for donor alignment.

Over the same period, the Government established a Department of Policy Development and Coordination (DPDC) also within the Council of Ministers in 2002 and based on a previously existing Department of Coordination. The DPDC is responsible for monitoring and reporting on line ministry activities supporting the Government Three-Year Action Plan directly to the Council of Ministers through a Minister of State near the Prime Minister (also responsible for public administration reform and anti-corruption). UNDP, traditionally a strong provider of technical assistance and in Albania actively involved in the area of policy formulation (for example supporting the Ministry of Economy), diversified its policy assistance to include support to the newly established DPDC.

By now at least three institutions were responsible in one way or another for the coordination of donor assistance, i.e. Ministry of Finance, Ministry of Economy, Ministry of European Integration and DPDC, adding up to was institutional confusion and competition. With all this in place, Prime Minister Nanos, in a speech in early 2004, focused on the issue of limited leadership by the Government, when he strongly criticized efficiency losses in utilizing international assistance, which he attributed to poor planning and coordination. He ordered his Government through the Ministries of Finance, Economy and European Integration, as well the Minister of State near the Prime Minister to address this issue, and assigned the Deputy Prime Minister's office to oversee these efforts.

Coordination among donors

Starting with the 1997 Albanian mini-crisis, coordination among donors originally took place in a parallel/sub group of the OSCE-chaired "Friends of Albania" political coordination mechanism. With the diminishing need for political coordination, donor-coordination weakened and came to a near stand-still, with some sectoral exceptions, in 2001. A low profile Consultative Group in early March 2001 served as a final note to this era, with 27 bilateral donors and 12 multilateral organizations meeting with the Government in Brussels to exchange views over the SAP-progress and the MTEF-initiative.

The need for improved donor coordination came to the fore in late 2001, when Government, WB and UNDP needed some time to tackle areas of overlap between a WB financed Public Administration Project and other ongoing projects. After hopes for government initiatives to lead coordination efforts proved unrealistic in 2002, DFID led a donor initiative to prepare and organize a donor retreat to discuss respective agendas, as well as opportunities and constraints to strengthening the national public policy process and implications for donor practices. The retreat (held in March 14, 2004 in Durres, hosted by DFID and cosponsored by CIDA) resulted in, among others ideas, the following proposals for action to: 1) convene a meeting of Ambassadors and Heads of Missions to discuss the architecture of donor coordination by June 2003; and 2) set up a task force to present proposals to move alignment and harmonization forward.

Future plenary meetings of the donors provided the opportunity –seized upon by a number of Ambassadors – to move things forward. In June 2003 the Greek Presidency of the EU, in its search for additional tangible results from its 6-month tenure, used a donor "round table" meeting (meetings held once every three months, which had previously mainly focused on the NSSD document) to push ahead with the approval of the proposed donor-architecture. This was then substantially agreed under another meeting chaired by the Italian Ambassador. During a subsequent December donor round table, it was again the dynamic of a specific party, in this case the US chair, pushing for clarity on next steps, that resulted in the EU-delegation suggesting to empower a donor "technical secretariat", consisting of the four "donor-architecture" lead agencies: EC-Delegation, OSCE, UNDP and World Bank. A tangible first result was an EC-

Delegation hosted web-site with a donor matrix in which standard fields (DAC code, amount, type of finance, status) are requested to be completed. Some donors have been quick to provide relevant information, others less so.

This process culminated in the Technical Secretariat presenting the paper “*Donor-Donor/Government-Donor Coordination in Albania – some proposals*” at a March 2004 roundtable chaired by the EU-delegation and to which all four Government of Albania ministries involved in liaising with donors were invited. In the wake of this meeting the Government of Albania assigned five senior representatives (Ministries of finance, Economy, European Integration, Council of Ministers/DPCD and Deputy Prime-Minister’s Office) to join the four lead donors in a Joint Technical Secretariat.

4. Partners’ alignment²

Alignment of policies

Since the March 2003 donor workshop, rough agreement exists among donors that improved alignment would, on the one hand, entail setting up a concrete coordination framework linked to and linking SAP/NSSSED/MDG’s, while, on the other hand, calling for coordination at the sectoral and thematic level via “on the ground” working groups and “lead donor-ship” arrangements.

With regards to this first track of macro-alignment, there are several concrete challenges. First, there is the challenge to support the Government’s efforts to set its strategic policy consistently and coherently, so that both line-ministries and donors can refer to one strategic framework and interact with one central agency. The Ministry of Finance, with its elaborate NSSSED department and network in the line-ministries could be this agency. Second, while accepting the differing missions of WB-, EU- and UN- offices and agencies in Albania, there is the challenge of finding common objectives and, especially, of agreeing on priority actions (and, thus, also on “non-priority” actions). Third, it is clear that several of the larger bi-lateral donors in Albania have a strong tradition of providing assistance through a bilaterally arranged framework, or have limited experience with, and possibly face institutional resistance to, supporting PRSP-like frameworks. These latter donors are skeptical that NSSSED can become anything more than a lot of studies and documents, neither relevant for implementation of programs, nor known outside of Tirana.

With regards to the second donor workshop proposal, coordination by the Government of its sector strategies within an overall development strategy, the agreed donor-architecture provides the Government with an opportunity to use the working groups under this architecture to help conceive and then execute such strategies. The WB, EU, UNDP and OSCE are all assigned overall responsibility for general areas: socio-economic development, rule of law and security, governance and capacity building, and democracy and human rights, respectively. Twenty seven thematic areas, sectors and sub-sectors have been identified. Some of these already work well and have done so for some time; for others it will be up to the lead-donor with their government counterparts to get the required coordination for sectoral policy alignment off the ground. In addition to these required steps, there is also the issue of a lack of line-ministry leadership (often even the absence of a sectoral strategy document) and/or overlapping line-ministry involvement

² Alignment entails partners’ adjusting their assistance in such a manner as to support as effectively and efficiently as possible the NSSSED, the government’s overarching poverty reduction strategy, both in terms of policies and in terms of financing and aid instruments.

in certain (sub) sectors. An oft mentioned example of this is the important water sector in which as many as five ministries are active in a relatively uncoordinated fashion.

Good examples of existing and functioning sector-coordination in terms of alignment include: 1) Legal/Judicial and Penal Reform; Police, Border Management and Organized Crime and 2) energy. In the area of rule of law/“justice and home-affairs”, there is intensive coordination and alignment. Not only is the government well represented (both the Albania State Police and the Ministry of Justice attend),but the 32 members (including bi-laterals, international organizations and NGOs), are organized into six working groups and follow guidance from and report to an executive committee consisting of the EC the three police agencies of Italy, the US and the EU. At present, there is even a parallel financing arrangement between the EC and the US to support the Government’s Ministry of Public Order for a nationwide police information system with respectively 10 million euro and \$6 million under consideration. Another example of good sectoral alignment, the energy sector, combines the efforts of the WB and the EBRD with those of three strong bi-laterals: Germany, Greece and Italy. The Ministry of Energy coordinates; the focus is clearly on investment projects to help resolve urgent technical problems; and there are frequent meetings.

Alignment of aid instruments; TA and financing

In the area of aligning of aid instruments, progress in Albania seems to lagging behind that of other PRSP countries. The legacy of the past (a culture of crisis linked to the relief efforts in the 1990’s) and of earlier “unsuccessful” efforts at coordination may play a role here. At the same time a certain sense of urgency, at least among some key partners exists: the rate of implementation of foreign funded projects and programs is alarmingly low, while, for example, Albania is about to lose its IDA-eligibility (and thus lose its access to cheap credits).

Budget support, widely regarded as the most aligned form of financial assistance, was provided by several donors (including Greece and Italy) when it could be justified by these donors as critical to supporting political stability in Albania, principally after the 1997 crisis. With the need for this political support gone, budget support is not considered anymore by many bi-lateral donors. The Netherlands provides relatively modest amounts of sectoral budget support to the Ministry of the Environment in which it matches increases in budget allocation for certain environmental line items. The EU will continue to provide 25 MEU budget support over the next three years, but regrets that due to the lack of sector strategies, support with sector budget support for Sector Wide Approaches (SWAs) is not an option.

The WB has so far been reluctant to give unconditional budget support since it feels the government’s efforts to generate domestic revenue (at present 20% of GDP, as opposed to the regional average of around 30% GDP) is not convincing enough. PRSC support, among others, is conditioned upon improvements in this area.

Full sector wide approaches do not exist in the Albanian context, mainly due to lack of clear sectoral policy-frameworks. As a result pooled funding, either in parallel or joint funding arrangements, is also rare.

Not surprisingly, challenges of donor coordination have been particularly visible among those technical assistance projects addressing the capacity building needs of each of the existing central government policy coordination structures, including the Ministry of European Integration (EC Delegation), Council of Ministers (OECD, WB, UNDP and The Netherlands), and Ministry of Finance (WB and DFID support for MTBP; WB, DFID, UNDP, OSCE, Carter Center and PRSP TF Support for NSSD Department).

5. Harmonization of donor policies and procedures with country systems³

Several Government representatives clearly state the problems of the multiplicity of procedures that the donors bring to the table. One of the larger donors in the region, for example, requires procedures that last up to two years to obtain a final approval, by which time the relevance of the project might be severely reduced. Only half of the externally financed projects are reflected in the budget/MTEF (or Medium Term Budget Program MTBP), while foreign financial aid makes up around 30% of government expenditure.

Donors, in their March 2003 meeting, clearly acknowledged the transaction costs involved for the Government of Albania and subscribed to the need for adhering to the internationally agreed Rome Principles of Harmonization. In the Albanian context this improved harmonizing of rules and procedures for delivering assistance combined with an increased reliance on national institutions and systems can, however, only work, the donors agreed, with parallel efforts by the Government of Albania: greater consistency of planning and expenditure prioritization across government, including a well developed link between budget and the Medium Term Budget Program, as well as improved government financial accountability and reporting. The longer-term pay-offs from these improvements would be a shift from external accountability to more domestic accountability to citizens, less diversion of scarce government capacity and more predictable and flexible financial assistance. Most of the interlocutors, both within and outside the government, felt it was much too early to consider having lead agencies (with one or more silent donor-partners), fully harmonizing donor procedures around (existing) reporting formats and partner country systems, synchronizing missions or even to consider having multi-donor missions.

Nevertheless, in the proposed donor architecture, the WB-led working group on “Aid Coordination and Public Finance Management”, most of these issues related to harmonization are, or will come, under discussion. The working group started relatively recently (December 2003) but is well attended and focused and can build on WB-led Country Procurement Assessment review (CPAR, 2001), the WB-led Country Financial accountability Assessment (CFAA, 2002) and the Public Expenditure review.

It is clear that the key challenge to improving accountability of Albanian systems is a strategic one; not only would improved financial accountability enhance overall allocation and efficiency, it would also allow for donors to shift their behavior gradually either to using local procurement systems for projects and/or to moving towards programmatic types of funding and budget support. Thus, the government’s key to donors’ simplifying procedures, relying on country systems and moving toward unconditional budget-support is to improve its own accountability and reliability of its public expenditure management. This would allow donors to make this shift.

It is equally clear that large multi-partner donors like the EC and the WB themselves play a crucial role in furthering (and limiting) progress towards harmonization. A typical example of the present stage of the game in terms of intentions and implementation is the Albanian Development Fund for which EU and WB, early in 2003, agreed on harmonized bidding documents and procurement guidelines as well as common audits. As it turns out, the EU will nevertheless require a separate audit in addition to the joint one.

³ Harmonization pertains to the reduction in the multiplicity of donors’ operational policies, their procedures and practices in order to reduce the transaction costs for the government and allow for strengthening of the country systems.

Both WB and EU offices indicated noticing the first positive effect of a cautious delegation of authority from their respective HQ's. The EU, having started earlier, already has a much increased "field-presence" and dialogue capacity; whereas the WB-office expects that, with the increased authority newly bestowed upon the resident country manager, the WB can be more selective (reducing from the present 20 projects), can better align its assistance with the NSSED and can be more of a harmonization advocate with some of the bi-lateral donors, those which are still hesitant to follow and implement the internationally agreed consensus.

6. Questions for working-group discussions

[to be distributed at the Tirana donor-training workshop; focusing on the following issues:

- 1) enhancing government's leadership of donor-coordination; deepening PRSP ownership,*
- 2) coordinating NSSED, SAP and MDG challenges; setting clear priorities*
- 3) Introducing SWAPs: coordination and alignment of policies at the sectoral level*
- 4) exploring alignment of instruments: the case for (general or sectoral) budget-support*
- 5) making progress in harmonization: procedures related to existing project portfolios]*

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